

Message Text

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TO AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L STATE 181828

LIMDIS GREENBACK

SUBJECT: MORSE'S DRAFT OF "FIRST OUTLINE OF REFORM"

PASS F. LISLE WIDMAN WITH SECRETARY SHULTZ'S PARTY

AT OPENING OF BUSINESS THURSDAY, SEPTEMBER 13, FROM VOLCKER.

1. FOLLOWING ARE MY REACTIONS. MORSE'S NEW DRAFT AT A FEW KEY POINTS SUBMERGES OUR VIEW CONSIDERABLY MORE HAN WE WOULD WISH, PARTICULARLY IN MANNER OF HANDLING ADJUSTMENT PRESSURES. AS A RESULT, AFTER BEING BEATEN DOWN ON HIS MODELS BY THE EUROPEANS, THE FLAVOR OF THIS DRAFT APPEARS MORE EUROPEAN AND LESS AMERICAN, EVEN THOUGH LANGUAGE ON KEY AGREED POINTS IS BASICALLY IN ACCORD WITH PARIS MEETING. THE UPSHOT, AS WE SEE IT, IS THAT NEW DRAFT HAS BEEN WRITTEN SO AS TO BE ON THIN EDGE OF ACCEPTABILITY TO U.S., WHILE LEAVING US QUOTE A CHALLENGE TO ULTIMATELY CARRY THE DAY ON PRESUMPTIVE PRESSURES AND THE CONVERTIBILITY POINT. SOME OTHER PARTS OF DRAFT REPRESENT SMALL IMPROVEMENT OVER EARLIER VERSION, E.G., PARTS OF INTRODUCTORY SECTION, AND DISCUSSION OF RULES AND AUTHORIZATION FOR FLOATING.

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2. ASIDE FROM GENERAL TONE AND BALANCE OF NEW DRAFT, FOLLOWING ARE SOME SPECIFIC POINTS WHICH CONCERN US:

A) IN PARA 9, LAST TWO SENTENCES DO NOT PRESENT CLEARLY THAT TWO ALTERNATIVE SYSTEMS ARE UNDER CONSIDERATION--ONE BASED ON ASSESSMENT AND POSITIVE IMF DECISION AS TO PRESSURES, THE OTHER BASED ON INDICATORS TRIGGERING PRESSURES, SUBJECT TO IMF OVERRIDE. THE MAIN DIFFICULTY IS THAT LATTER IS NOT APPARENT AS CRUCIAL U.S. CONCERN.

B) IN PARA 10, OUTLINE INDICATES IT IS AGREED THAT POSITIVE DECISION WOULD BE REQUIRED FOR APPLICATION OF "OTHER" PRESSURES (PUBLICATION OF REPORT AND CURRENT ACCOUNT RESTRICTIONS). AT DEPUTIES, U.S. PROPOSED THAT ON BASIS INDICATOR'S MOVEMENT, IMF CONSULTATIVE BODY COULD PERMIT OTHER PRESSURES TO BE APPLIED BY NOT VOTING TO OVERRIDE SUBJECT TO APPEAL TO COMMITTEE OF GOVERNORS. QUESTION OF WHETHER THESE PRESSURES WOULD BE ACTIVATED BY INDICATORS OR BY POSITIVE DECISION SHOULD BE INCLUDED AS ITEM FOR FURTHER NEGOTIATION.

C) ON QUESTION OF MARGINS, PARA 13, ACTUAL DRAFTING IS STILL AMBIGUOUS, ALTHOUGH PLAIN INTERPRETATION OF ALL AT MEETING WAS THAT INTENTION WAS TO ACCEPT U.S. POSITION OF WIDER MARGINS FOR DOLLAR IN CONTEXT OF MCI. IF MCI NOT INTRODUCED, IT IS AN OPEN ISSUE WHETHER U.S. COULD HAVE WIDER MARGINS THAN SMITHSONIAN. SENTENCE SHOULD SAY EXCHANGE RATE BETWEEN ANY TWO CURRENCIES COULD DEVIATE FROM THE PARITY RELATIONSHIP BY NO MORE THAN 4-1/2 PERCENT. THE PARITY REFERRED TO IN THE MORSE OUTLINE IS PRESUMABLY THE SDR PARITY, AND IS NOT INCONSISTENT.

D) IN PARA 15, INCLUSION OF WORD "CONTINUING" IN SECOND SENTENCE IMPLIES NO STRENGTHENING OF PRESENT DEGREE OF COORDINATION BETWEEN IMF AND CONFIDENTIAL

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GATT.

E) IN PARA 17, DRAFT STILL SPEAKS OF "LIMITING DISEQUILIBRATING CAPITAL FLOWS," SINCE REST OF PARAGRAPH CLEARLY ENVISAGES POLICIES OTHER THAN CONTROLS, OUR CONCERN OVER POSSIBLE INTERPRETATION THAT GENERAL UNDERTAKING IS IMPLIED THAT SOMEHOW OR OTHER THESE FLOWS WILL

BE STOPPED BY CONTROLS MAY NOT BE TOO SERIOUS.

F) IN PARA 20, IT SHOULD BE MADE CLEAR THAT AGREE-
MENT THAT CURRENCY HOLDINGS SHOULD BE KEPT
UNDER INTERNATIONAL SURVEILLANCE AND MANAGEMENT
DOES NOT MEAN SHORT-TERM MANAGEMENT IN PERIODS
OF SUDDEN CAPITAL MOVEMENTS AND THE LIKE.
"REVIEW" WOULD BE BETTER WORD.

G) IN PARA 22, DISCUSSION OF ELASTICITY SUBMERGES
POINT OF KEY IMPORTANCE TO U.S.--CONVERTIBILITY
POINT. ALSO IN PARA 22 (AND PARA 9) OUTLINE
PERSISTS IN REFERRING TO A LIMITATION ON COUN-
TRIES' RIGHT TO CONVERT, RATHER THAN THEIR
RIGHT TO ACQUIRE ADDITIONAL PRIMARY ASSETS
FROM ANY SOURCE.

H) IN PARA 23, U.S. DOES NOT AGREE TO CONVERTIBILITY
IN STAGES, AND PARA SHOULD SAY "IF AGREED"
RATHER THAN "IF NECESSARY."

I) PARA 33 MAKES STATEMENT SYSTEM WILL CONTAIN
"ARRANGEMENTS" TO PROMOTE RESOURCE FLOWS TO
LDC'S. SUBSEQUENT SENTENCE MAKES CLEAR THIS
DOES NOT MEAN THAT AID-LINK IS AGREED, BUT
"ARRANGEMENTS" MAY IMPLY SOMETHING MORE THAN
HAS IN FACT BEEN AGREED UPON. WE HAVE AGREED
THAT SYSTEM SHOULD "ENCOURAGE" ECONOMIC
DEVELOPMENT, AND SOUGHT IN DEPUTIES TO HAVE
WORDING ALONG THESE LINES INCORPORATED IN THE
OUTLINE.

J) IN PARA 20, SECOND SENTENCE, MORSE HAS LEANED
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OVER BACKWARDS TO KEEP IN POINT NOT SERIOUSLY
PUSHED BY OTHERS AT PARIS. PRESUMABLY HE
WAS TRYING TO BALANCE POINTS WE GAINED IN
THIS PARAGRAPH.

3. OVERALL, WE CANNOT SAY MORSE HAS
SIGNIFICANTLY VIOLATED ANY PARIS UNDERSTANDING, BUT
MANNER OF STATING CERTAIN POINTS HAS LEFT US WITH NOTHING
FURTHER TO GIVE AND IN SOME PLACES WILL PUT US ON THE
NEGOTIATING DEFENSIVE. GIVEN THE AGGRESSIVENESS DISPLAYED
BY EUROPEANS IN PARIS, THEY WILL NOT BE ENTIRELY HAPPY
EITHER. RUSH

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